

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01 /110 W
-----041516 241836Z /64

R 241757Z APR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 7993
DEPARTMENT TREASURY
INFO WHITE HOUSE WASHDC
AMEMBASSY BRUSSELS
AMEMBASSY PARIS
AMEMBASSY TOKYO
AMEMBASSY ROME
AMEMBASSY OTTAWA
AMEMBASSY LONDON

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WHITE HOUSE FOR OWEN; USOECD ALSO FOR EMBASSY, USEEC

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
SUBJECT: ECONOMIC INSTITUTES' CONSENSUS FORECAST AND
RECOMMENDATION FOR THE FRG ECONOMY

1. SUMMARY -- ECONOMIC INSTITUTES' BIENNIAL FORECAST OF
THE GERMAN ECONOMY PLACES REAL GNP GROWTH FOR 1978 AT
2.5 PERCENT. CONSENSUS RECOMMENDS TAX REDUCTIONS AND
REFORM AND HIGHER PUBLIC SECTOR OUTLAYS TO STIMULATE
SLUGGISH ECONOMY. REPORT SUGGESTS MANAGEMENT/LABOR
CONSIDER REDUCTION IN WORKING HOURS TO STIMULATE
EMPLOYMENT. END SUMMARY.

2. CONSENSUS FORECAST OF THE BIG FIVE ECONOMIC
INSTITUTES RELEASED ON APRIL 24 SEES PRINCIPAL MACRO-
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ECONOMIC VARIABLES DEVELOPING IN 1978 AS FOLLOWS:

1970 PRICES, NON-SEASONALLY, NON-WORK DAY ADJUSTED
PERCENTAGE INCREASE OVER SAME PERIOD OF PREVIOUS YEAR

1ST HALF 2ND HALF YEAR

PRIVATE CONSUMPTION	3.5	2.0	3.0
GOVERNMENT CONSUMPTION	3.0	3.0	3.0
INVESTMENT IN FIXED ASSETS	2.5	5.5	4.0
EQUIPMENT	5.0	4.0	4.5
CONSTRUCTION	1.0	6.5	4.0
CHANGE IN INVENTORIES			
(BILLION DM)	6.5	2.0	8.5
EXPORTS	4.5	3.5	4.0
IMPORTS	7.0	4.0	5.5
NET FOREIGN BALANCE			
(BILLION DM)	11	12	23.5
GNP	2.5	3.0	2.5
EMPLOYMENT	-0.5	0	-0.5
HOURS WORKED	-0.5	0	-0.5
PRODUCTIVITY			
(HOURLY PER WORKER)	3.5	3.5	3.5
PRICE DEFLATORS:			
PRIVATE CONSUMPTION	3.0	3.0	3.0
GOVERNMENT CONSUMPTION	3.5	4.0	4.0
EXPORTS	0.5	1.5	1.0
IMPORTS	-2.5	1.0	-1.0
GNP	4.0	3.5	4.0

3. FORECAST AND RECOMMENDATIONS OF INSTITUTES CONTAIN
FEW SURPRISES. ALTHOUGH ABSENCE OF SEASONAL ADJUSTMENTS
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AND UNUSUALLY INCLEMENT WEATHER IN EARLY 1978 HAS
DELAYED CONSTRUCTION-TYPE ACTIVITY, WEIGHTING STILL
APPEARS TOO UNEVENLY DISTRIBUTED BETWEEN HALF-YEARS.
WE THINK INSTITUTES ARE BIT TOO PESSIMISTIC ON EXPORTS
IN VIEW OF SOMEWHAT IMPROVED ECONOMIC PROSPECTS FOR
FRG'S PRINCIPAL CUSTOMER COUNTRIES. IMPORT GROWTH
RATE APPEARS RATHER LARGE IN VIEW OF LOW GNP AND EXPORT
GROWTH RATES.

4. REPORT NOTES THAT DOLLAR CRISIS AND BITTERNESS OF
WAGE NEGOTIATIONS HAVE HAD DEPRESSING IMPACT ON ECONOMY
AND THAT A TURNAROUND IN EXCHANGE RATE COULD IMPROVE
PROSPECTS. AT THE SAME TIME IT WARNS THAT THIS WILL NOT
BE ENOUGH TO ENSURE ADEQUATE GROWTH AND HIGHER
EMPLOYMENT.

5. CONSENSUS CALLS ON FRGHO PURSUE GROWTH-ORIENTED
POLICY USING EXPENDITURE AND TAX POLICY. IT WARNS
AGAINST ANY NEAR-TERM CONSOLIDATION OF PUBLIC FINANCES

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(AS CURRENTLY DEMANDED BY SOME POLITICAL ELEMENTS)
AS COUNTER-PRODUCTIVE. REPORT SUGGESTS GOVERNMENT
CONSIDER 1) TEMPORARY TAX RELIEF MEASURES PROVIDED FOR
BY THE ECONOMIC GROWTH AND STABILIZATION LAW,
FOLLOWED BY ADJUSTMENTS IN INCOME TAX GRADATIONS,
2) EXPANDED PUBLIC SECTOR EMPLOYMENT, 3) MORE AID TO
LDCS (WHICH I.A. WILL BOOST FRG EXPORTS) AND 4)
FORMULATION OF GOVERNMENT INVESTMENT PROGRAMS FOR 1979
AND THEREAFTER. REPORT GIVES GENERAL PREFERENCE TO
TAX REDUCTION OVER GOVERNMENT EXPENDITURES BECAUSE OF
ITS SPEEDIER IMPACT.

6. SPECIFICALLY DIRECTED AT EMPLOYMENT SITUATION IS
SUGGESTION THAT LABOR AND MANAGEMENT CONSIDER FURTHER
GRADUAL REDUCTION OF WORK HOURS, EARLIER RETIREMENT
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AND ADDITIONAL VOCATIONAL TRAINING. REPORT SUGGESTS PROFIT MARGINS OF BUSINESS WILL REMAIN INADEQUATE IN 1978, DESPITE SOMEWHAT LOWER SETTLEMENTS THAN IN PREVIOUS YEAR; IT SUGGESTS IMPROVEMENT IN PROFIT EXPECTATIONS NEEDED TO FOSTER INVESTMENT.

7. CONSENSUS IS MODERATELY CRITICAL OF MONETARY AND EXCHANGE RATE POLICIES OF BUNDESBANK. IT RECOMMENDS GRADUALLY SLOWING DOWN RATE OF MONEY SUPPLY EXPANSION AND LESS INTERVENTION IN EXCHANGE RATE MARKETS. IT NOTES, WITHOUT COMMENT, WIDELY HELD VIEW THAT OFFICIAL INTERVENTION INCREASES SPECULATION.

8. BERLIN INSTITUTE DEMURRED ON CONSENSUS' PREFERENCE FOR TAX MEASURES OVER EXPANDED PUBLIC SECTOR OUTLAYS CITING HIGH PRIVATE SAVINGS RATIO, ESPECIALLY DURING PERIODS OF UNCERTAINTY. ESSEN INSTITUTE TOOK EXCEPTION TO ALL SUGGESTIONS FOR GREATER FISCAL ACTIVISM, LABELLING WAGE INFLATION THE REAL DRAG ON ECONOMIC EXPANSION.
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